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December 17, 2002

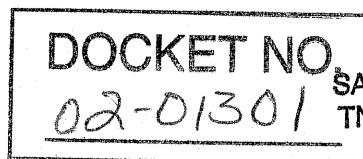
TN REGULATORY AUTHORITY
DOCKET ROOM

Paul C. Besozzi
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VIA FEDERAL EXPRESS

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Honorable Sara Kyle
Chair
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505



DEC 18 2002

SARA KYLE, COMMISSIONER
TN PUBLIC SERVICE COMM.

Re: Evercom Systems, Inc. - Application For Expedited Approval Of Indirect Transfer of Control

Dear Chair Kyle:

On behalf of Evercom Systems, Inc. ("ESI"), an authorized provider of inmate telephone services in the State of Tennessee (Case No. 99-00502), and in accordance with Section 65-4-113 of the Tennessee Code, I hereby submit the enclosed Application (original plus 13 copies) seeking the Tennessee Regulatory Authority's expedited approval for the indirect transfer of control of ESI through the restructuring of its parent, Evercom, Inc., as described in the enclosed Application. Also enclosed is a check made payable to the Tennessee Regulatory Authority in the amount of \$25.00 to satisfy the requisite filing fee.

Please date-stamp the enclosed copy marked "Stamp-In" and return to my attention in the self-addressed stamped envelope provided. Please contact me with any questions.

Very truly yours,


Paul C. Besozzi

Enclosures

cc: Sandra Skogen, Esq.
Glen Hettinger, Esq.

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

**Application of Evercom Systems, Inc.)
and Evercom, Inc. For Expedited)
Approval of the Indirect Transfer of)
Control of Evercom Systems, Inc.)
Pursuant to a Debt/Equity Exchange)
by Evercom, Inc.**

Docket No. 02-01301

APPLICATION

Comes now Evercom Systems, Inc. ("ESI") and Evercom, Inc. ("EI" or "Company"), acting through counsel and in accordance with Section 65-4-113 of the Tennessee Code, to request approval on an expedited basis of the indirect transfer of control of ESI through the restructuring of its parent EI as described below.

I. BACKGROUND

1. ESI is authorized by the TRA to provide inmate telephone services throughout the State. *See* Order dated August 10, 1999 in Case Number 99-00502. ESI is currently providing such services at a number of county and municipal jails throughout the State.

2. ESI is a wholly-owned subsidiary of EI, which is a State of Delaware corporation, which does not provide telecommunications services. EI proposes to restructure and recapitalize through (a) an exchange offer with the holders of certain of its outstanding debt and (b) a related merger. As a result, upon consummation of the contemplated transactions, the former debt holders will collectively own approximately 98% of a newly-formed corporation, EI Merger Holdings, Inc., which will in turn hold

100% of the stock of EI, thereby effecting an indirect transfer of control of ESI. A detailed description of the transaction follows in Section II.

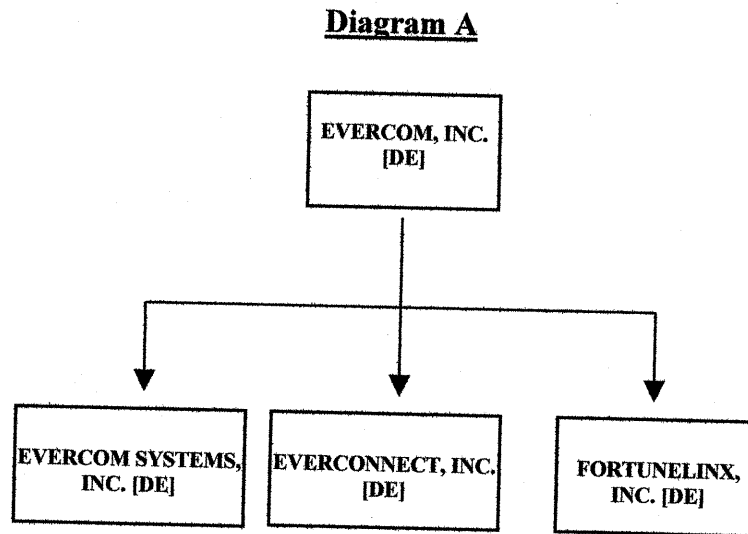
II. DESCRIPTION OF THE TRANSACTION

3. **General** – EI will be recapitalized through an Exchange Offer (as described in Paragraph 7. below) with holders of its outstanding 11% Senior Notes and a related Merger (as described in Paragraph 9. below). Taken together these steps are referred to as the “Restructuring.” The purpose of the Restructuring is to increase stockholders’ equity, reduce indebtedness and interest expense and improve the operating and financial flexibility of EI. The description of the Restructuring below summarizes:

- a. The current stockholders and structure of the Company.
- b. The new entities to be created for use in the Merger.
- c. The Reorganization Agreement.
- d. The Exchange Offer.
- e. The Merger.
- f. The resulting stockholders and structure of EI.

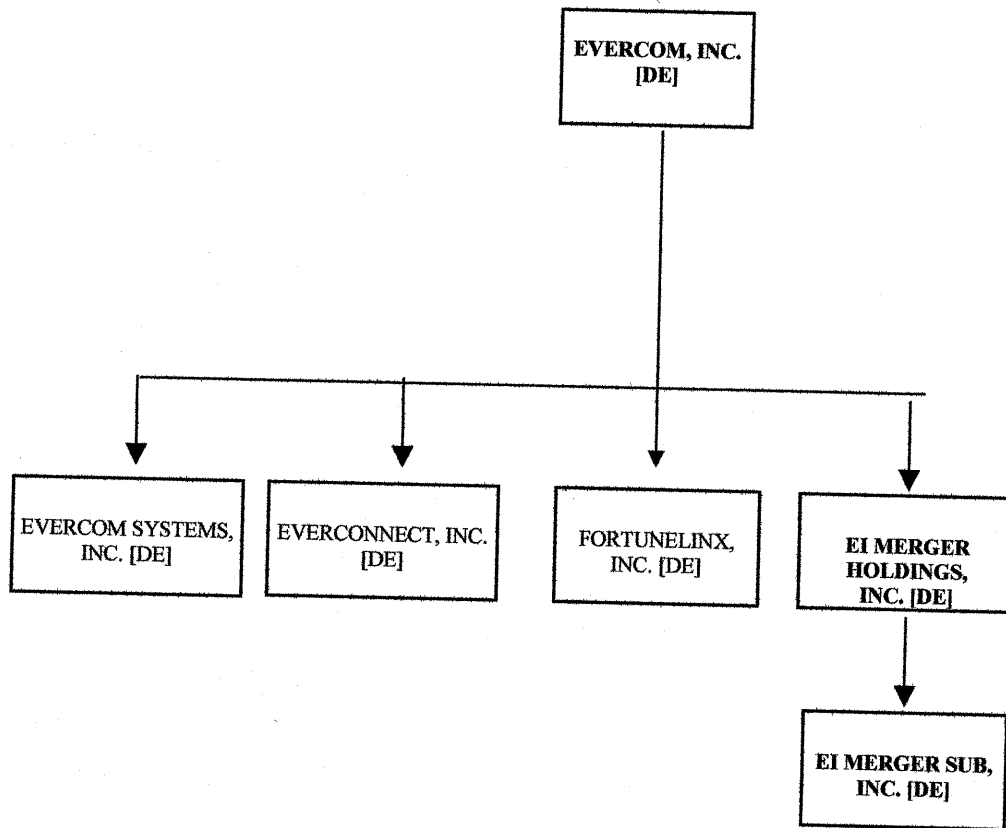
4. **Current Stockholders And Structure** – As noted previously, EI is a Delaware corporation. It has two classes of common stock (Class A and Class B) and two classes of preferred stock (First Preferred and Senior Preferred). EI also has outstanding warrants and options that are convertible into common stock of the Company. EI has three wholly-owned, direct subsidiaries that are all Delaware corporations – ESI, Everconnect, Inc. and FortuneLinx, Inc. The Company has no other affiliated entities. For purposes of this Application only ESI is relevant because it is the entity authorized by the

TRA to provide inmate telephone services and the only EI-related entity providing those services in the State. The following **Diagram A** shows the existing corporate structure of the Company and its subsidiaries:



5. **Entities** – In order to effect the Restructuring, two new Delaware corporations will be created for use in the Exchange Offer and the Merger. The two new entities, EI Merger Holdings, Inc. (“EI Merger Holdings”) and EI Merger Sub, Inc. (“EI Merger Sub”), will initially be wholly-owned subsidiaries of EI, with EI Merger Sub as a wholly-owned direct subsidiary of EI Merger Holdings, as shown in the following **Diagram B**:

Diagram B



6. **Reorganization Agreement** – EI, EI Merger Holdings and EI Merger Sub will enter into a Reorganization Agreement with holders of the Company’s 11% Senior Notes due 2007 with an aggregate principal amount of \$115,000,000 (the “Notes”). The Reorganization Agreement will provide for:

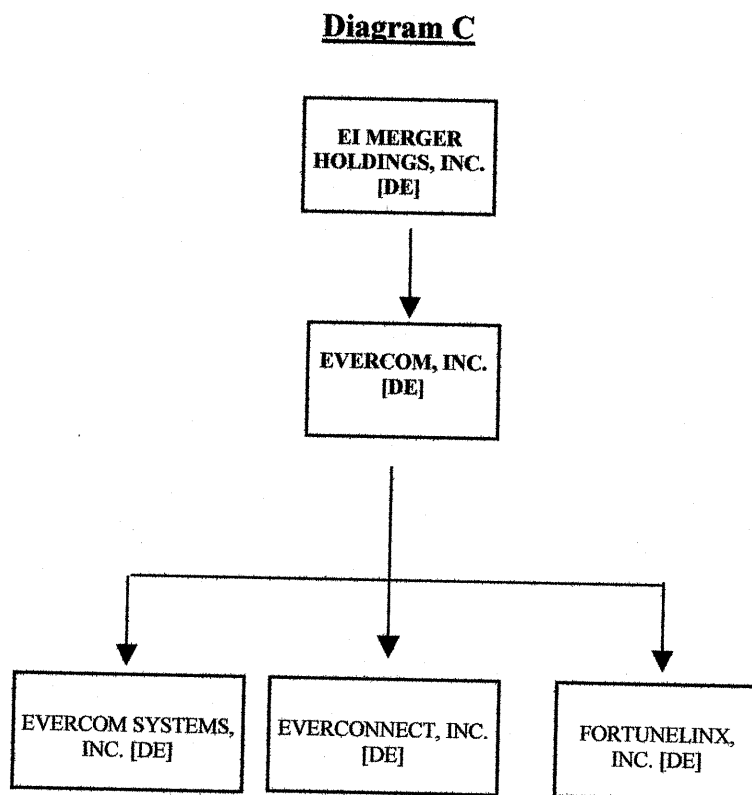
- a. An Exchange Offer for the outstanding Notes.
- b. The Merger of the Company with and into EI Merger Sub with the Company surviving as a wholly-owned subsidiary of EI Merger Holdings.
- c. Employment arrangements for existing executives of the Company.

- d. Voting agreements with holders of the requisite percentage of the common stock of the Company to approve the Merger.
 - e. Agreements by holders of at least 2/3 of the outstanding Notes that they will tender their Notes in the Exchange Offer.
 - f. Forbearance by the creditors of the Company, including the holders of Notes, during the time period required to effect the Restructuring.
 - g. A senior credit facility for the Company after the Restructuring.
7. **Exchange Offer** – Pursuant to the Reorganization Agreement, EI will commence an Exchange Offer of common stock of EI Merger Holdings for up to all of the outstanding Notes (with holders of Notes owning in the aggregate up to 98% of the common stock of EI Merger Holdings, subject to dilution for employee stock options and warrants to be issued in the Merger). The Exchange Offer will require holders of the Notes to tender within a twenty-business day exchange period:
- a. Their Notes.
 - b. A global release of, among others, the officers and directors of the Company.
 - c. An exit consent removing protective covenants from the indenture governing the Notes.
 - d. An irrevocable consent to a Chapter 11 Plan of Reorganization, which would allow the Company to accomplishing a restructuring on the same terms as the Restructuring by use of the U.S. Bankruptcy Courts if the Exchange Offer is not consummated for reasons other than the Company's breach of the Reorganization Agreement.

8. Conditions to the closing of the Exchange Offer, include:
 - a. A minimum tender of a specified principal amount of Notes.
 - b. Both the Company's and Note holders' compliance with the terms of the Reorganization Agreement.
 - c. Necessary regulatory approvals.
9. **Merger** – Immediately after the closing of the Exchange Offer, EI will merge into EI Merger Sub, with the Company as the surviving entity and a wholly-owned subsidiary of EI Merger Holdings. As merger consideration, current stockholders of EI will receive warrants to purchase common stock (in the aggregate of approximately 2%) of EI Merger Holdings at a nominal exercise price and exercisable by a prescribed date. Exercise of these warrants will require the execution and tender of a global release of claims against, among others, EI, its directors, officers and affiliates as well as holders of the Notes. The current stockholders of the Company will also receive as merger consideration three series of warrants with an exercise price implying post-Restructuring equity valuations of EI of \$150 million, \$200 million and \$250 million, respectively. In order to facilitate the closing of the Merger, the Reorganization Agreement will require that a specified percentage of the common stock of EI enter into voting agreements in favor of the Merger.
10. **New Stockholders And Structure** – As a result of the Restructuring, the holders of Notes will own approximately 98% of the common stock of EI Merger Holdings, with the current stockholders of EI owning up to the remaining 2% should they elect to exercise their 30-day warrants. In addition to the 30-day warrants, EI Merger Holdings will have three series of outstanding warrants after the Restructuring, as well as

options to employees. Moreover, as a result of the Restructuring, EI will have become a wholly-owned, direct subsidiary of EI Merger Holdings, but will retain the three wholly-owned, direct subsidiaries it had prior to the Restructuring as shown in the following

Diagram C:



III. CONTACT FOR APPLICATION

11. The contact person for any questions regarding this Application shall be Paul C. Besozzi of the law firm of Patton Boggs LLP, 2550 M Street, N.W., Washington, D.C, 20037, Telephone Number: 202-457-5292, Facsimile Number: 202-457-6315, Electronic Mail Address: pbsozzi@pattonboggs.com.

IV. PUBLIC INTEREST REASONS FOR THE GRANT

12. This transaction is non-controversial and will be transparent and seamless to all customers of ESI. There will be no changes in rates, terms or conditions of ESI's services as part or as a result of this transaction; those services will continue on their current basis. In addition, the management and relevant contact information for ESI will remain the same as the TRA's records currently reflect.

13. This transaction will strengthen both ESI and EI financially by retiring high interest debt obligations of its parent EI and bringing additional financially sound stakeholders into EI. The resulting elimination of some \$115 million in debt from EI's balance sheet will also provide EI with greater financial flexibility to support and Completion of the transaction will therefore help ESI to continue to provide services to its customers and potentially expand or enhance those services at new facilities in the State. It will also avoid the need to reorganize through an alternative, but potentially more disruptive, process.

V. REQUEST FOR EXPEDITED TREATMENT

14. ESI and EI are requesting expedited approval of this Application. As noted above, it is non-controversial and transparent to ESI's customers. For the other reasons outlined above it is in the public interest. The longer the delay in closing this transaction the greater the likelihood that it will have to be effected through a reorganization under Chapter 11 of the U.S. Bankruptcy Code. Such a reorganization could then have disruptive effects on services offered and provided to ESI's customers and could lead to termination of those services in certain locales. To ensure the avoidance of such circumstances, the transaction must be consummated by February 1, 2003.

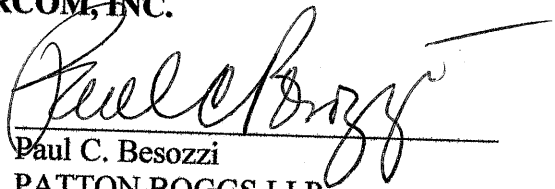
Therefore, ESI and EI respectfully request expedited action to ensure that date can be met.

WHEREFORE, ESI and EI respectfully request that the TRA approve this Application on an expedited basis so that EI may consummate the contemplated transactions no later than February 1, 2003.

Respectfully submitted,

**EVERCOM SYSTEMS, INC. and
EVERCOM, INC.**

By:



Paul C. Besozzi

PATTON BOGGS LLP

2550 M Street, N.W.

Washington, D.C. 20037

Telephone: (202) 457-6000

Facsimile: (202) 457-6315

Counsel for Applicants

VERIFICATION

I, Sandra Skogen, am the Vice President and General Counsel of Evercom, Inc. The foregoing Application has been prepared pursuant to my direction and control and I have reviewed its contents. The factual statements and representations made therein concerning Evercom, Inc., Evercom Systems, Inc. and the transactions described therein are true and correct to the best of my knowledge and belief.

Sandra Skogen

Sandra Skogen
Vice President and General Counsel
Evercom, Inc.

County of Dallas)

State of Texas)

Subscribed and sworn to before me by Sandra Skogen this 16 day of December, 2002.

Melissa L. Montoya
Notary Public

My Commission Expires: 8-20-03

